

CITY OF SPENCER, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

JUNE 30, 2010

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**CITY OF SPENCER, IOWA
DIRECTORY OF CITY OFFICIALS AND RELATED ORGANIZATION TRUSTEES
AS OF JUNE 30, 2010**

MAYOR

Reynold L. Peterson

MAYOR PRO-TEM:

Ron Hanson

COUNCIL MEMBERS

George Kruger
Randy Swanson
Rich Prentice

Edward J. Krebs
Ron Hanson

Steve Bomgaars
David A. Scott

CITY MANAGER

Bob Fagen

CITY CLERK

Theresa Reardon

CITY ATTORNEY

Donald J. Hemphill

DIRECTOR OF PUBLIC WORKS

Mark White

CHIEF OF POLICE

Mark Lawson

FIRE CHIEF

Douglas Duncan

PLANNING DIRECTOR

Kirby Schmidt

CEMETARY SUPT.

Irwin Martin

PARK

DelRay Bredehoeft

STREET SUPERINTENDENT

Dwayne Sebby

GOLF COURSE CLUB HOUSE MGR.

Stacy Caskey

GOLF COURSE SUPT.

Brian Mohr

LANDFILL

Chuck Duhn

SOLID WASTE SUPERINTENDENT

Kent Herbold

LIBRARY DIRECTOR

Kay Larson

CITY FINANCE OFFICER

Donna Fisher

COUNCIL STANDING COMMITTEES

PUBLIC SAFETY

Ed Krebs, Chairperson
Randy Swanson
George Kruger

FINANCE & PERSONNEL

Rich Prentice, Chairperson
Steve Bomgaars
Ron Hanson

PUBLIC WORKS

David Scott, Chairperson
Rich Prentice
Ron Hanson

PROGRESS & DEVELOPMENT

Randy Swanson, Chairperson
Steve Bomgaars
David Scott

BOARD AND COMMISSIONS

MUNICIPAL UTILITIES TRUSTEES

Gary Tolzmann
Dave Hultgren
Sandi Schmidt
Tom Howe
Murray Hart

GOLF COURSE BOARD

Larry Slota
Steve Fox
Lavonne Peterson
Paul Brenner
Sam Harper

PLANNING & ZONING COMMISSION

Alison Simpson
Dean Jacobsen
Duane Willrett
Craig Wampler
Ed Nygaard
Kathy Fueston
Marjorie Eeten

COMPENSATION ADVISORY BOARD

Jeff Bohnenkamp
Mary Rahn
David Johnson
Susan Zulk
Diane Quist Zinn
Kari Roskens
Dave Woodcock

CIVIL SERVICE COMMISSION

Michaela Sailer-Matthiesen
Kevin Robinson
Connie Larson

COLLECTION RATE REVIEW BOARD

Clark Marshall
Marilee Betts
Bob Fagen

AIRPORT BOARD OF TRUSTEES

Bob Bates
Kyle Norris
Tim Steffen
Les Hicks
Bill Hemme

PARK BOARD

Kim Bates
Dick Montgomery
Jason Warren
John Zinn
Mark Boyd

MUNICIPAL HOSPITAL TRUSTEES

Gary VanHofwegen
Neal Conover
Kris Van Berkum
John Cotton
John Rahn

ZONING BOARD OF ADJUSTMENT

Terry Peterson
Suzanne Harper
Kirby Froehlich
Roger Green
Rhonda Dean
Mark Lykke
Don Baxter

LIBRARY TRUSTEES

Wayne Koppen
Esther Connell
Juanita Hicks
Bryan Harken
Karen Carey
Roger Littlefield
Kathy Greiner
Carol Hansen

PLUMBERS EXAMINERS BOARD

Joe Froiland
Rick Dean
Jarold Krogman

ELECTRICAL BOARD OF EXAMINERS

Dave Nelson
Steve McAllister
Steve Nolting

COMMUNICATION CENTER BOARD

Burlin Matthews
Ken Chalstrom
Randy Swanson
Rich Prentice
Mark Lawson
Randy Krukow

BOARDS AND COMMISSIONS – CONTINUED

HISTORIC PRESERVATION COMMISSION

Sheriffa Jones
Harry Rasdal
Bruce Lamport
John Frans
Clark Marshall
Karli Frerichs
Jim Morony

RENAISSANCE INITIATIVE COMMITTEE

Randy Cauthron
Mary Jean Montgomery
John Goede
Tim Kehoe
Dick Schallau
Tom Nelson
Clinton Jones
Jill Barr

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

The Honorable Mayor and Members of the City Council
City of Spencer, Iowa

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spencer, Iowa, (the City) as of and for the year ended June 30, 2010, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The financial statements do not include financial data for the City's legally separate component unit, Spencer Municipal Hospital. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the assets, liabilities, net assets, revenues, and expenses of the aggregate discretely presented component unit would have been reported as \$91,401,343, \$20,834,400, \$91,401,343, \$68,422,129 and \$62,231,405 respectively.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the aggregate discretely presented component unit of the City of Spencer, Iowa as of June 30, 2010, or the changes in financial position thereof for the year then ended.

Further, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of

Spencer, Iowa as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended, in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010 on our consideration of the City of Spencer, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6-11 and 29-31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of measurement and presentation of the required supplementary information. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's financial statements as a whole. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the seven years ended June 20, 2009 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplemental information included in pages 32-37, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole. The other information included in pages 38-49 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express or provide any assurance on it.

Williams + Company, P.C.

Certified Public Accountants

Spencer, Iowa
December 17, 2010

Management Discussion and Analysis

June 30, 2010

This discussion and analysis of the City of Spencer's financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2010. We encourage the readers to consider the information in conjunction with the City's financial statements, which follow.

Financial Highlights:

- The City's total cash basis net assets decreased \$22,273 from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$172,325 and the assets of the business type activities decreased \$194,598.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to the Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Other Information provides selected ten year statistical information.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is *"Is the City of Spencer as a whole better off or worse off as a result of the year's activities?"* The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- **Governmental Activities** include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property taxes and state and federal grants finance most of these activities.
- **Business Type Activities** include the waste water treatment plant, solid waste, landfill, golf course and airport. These activities are financed primarily by user charges.

REPORTING THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond requirements. The City Council also established funds to control and manage money for particular purposes (such as construction projects) and to show that it is properly using certain receipts (such as Sales Tax Receipts). The City has the following types of funds:

- **Governmental Funds** account for most the City's basic services. These focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- **Proprietary Funds** account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains five Enterprise Funds to provide separate information for the sanitary sewer, solid waste, landfill, golf course, and airport funds. The sanitary sewer, solid waste, and landfill funds are considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

THE CITY AS TRUSTEE

Reporting the City's Fiduciary Responsibilities

Fiduciary Funds are used to account for resources held for the benefit of parties outside the City government. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the City's fiduciary activities are reported in a separate Schedule of Changes in Fiduciary Assets and Liabilities – Agency Fund. We exclude these activities from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

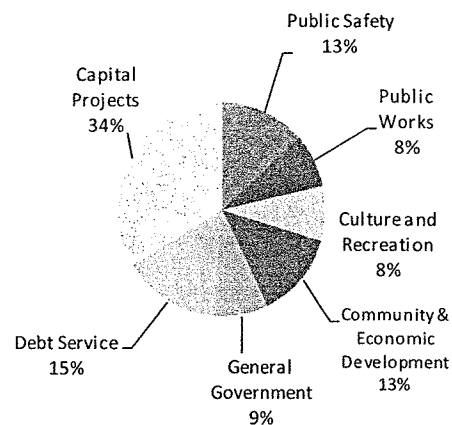
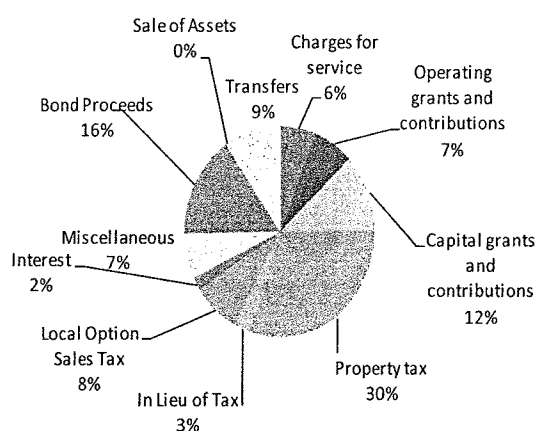
The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found behind the Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Proprietary Funds.

THE CITY AS A WHOLE

As stated earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$12,289,460 to \$12,461,785. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities		
	Year ended June 30, 2010	Year ended June 30, 2009
Receipts:		
Program receipts:		
Charges for service	\$ 1,027,594	\$ 755,519
Operating grants and contributions	1,216,939	1,135,349
Capital grants and contributions	2,093,553	331,894
General receipts:		
Property tax	5,294,198	5,107,138
In Lieu of Tax	485,250	615,300
Local Option Sales Tax	1,380,226	1,631,902
Interest	366,406	479,729
Miscellaneous	1,192,687	1,932,059
Bond Proceeds	2,761,245	2,335,130
Sale of Assets	51,520	50,261
Transfers	1,615,281	(862,111)
Total receipts	<u>17,484,899</u>	<u>13,512,170</u>
Disbursements:		
Public Safety	2,285,294	2,461,524
Public Works	1,420,977	1,459,165
Culture and Recreation	1,425,791	1,369,796
Community & Economic Development	2,289,495	2,776,842
General Government	1,478,420	1,465,448
Debt Service	2,584,260	1,485,111
Capital Projects	5,828,337	1,820,672
Total disbursements	<u>17,312,574</u>	<u>12,838,558</u>
Increase in cash basis	172,325	673,612
Cash basis net assets beginning of year	<u>12,289,460</u>	<u>11,615,848</u>
Cash basis net assets end of year	<u>\$ 12,461,785</u>	<u>\$ 12,289,460</u>

Receipts by Source



Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2010	Year ended June 30, 2009
Receipts:		
Program receipts:		
Charges for service:		
Sanitary Sewer	\$ 2,090,912	\$2,004,251
Solid Waste	1,568,458	1,466,970
Landfill	1,281,786	1,133,034
Airport	232,973	217,900
Golf Course	418,627	387,037
General receipts:		
Interest	204,450	227,406
Debt Proceeds	1,323,744	-
Miscellaneous	100,632	63,276
Transfers	(1,615,281)	862,111
Total receipts	<u>5,606,301</u>	<u>6,361,985</u>
Disbursements:		
Sanitary Sewer	1,476,093	1,012,080
Solid Waste	1,580,701	1,534,120
Landfill	2,162,946	688,665
Airport	177,125	140,968
Golf Course	404,034	393,569
Total disbursements	<u>5,800,899</u>	<u>3,769,402</u>
Increase (Decrease) in cash basis	(194,598)	2,592,583
Cash basis net assets beginning of year	<u>7,220,563</u>	<u>4,627,980</u>
Cash basis net assets end of year	<u>\$ 7,025,965</u>	<u>\$7,220,563</u>

The total business type activities cash balance decreased from a year ago, decreasing from \$7,220,563 to \$7,025,965.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Spencer completed the year, its governmental funds reported a combined fund balance of \$12,461,785 an increase of \$172,325 from last year's total of \$12,289,460. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$474,725 from the prior year to \$10,382,482. This was due to an increase in loan and bond proceeds for the Green Industrial Center.
- The Capital Projects Fund decreased \$175,137 from the prior year to \$259,321. This decrease in balance was due to completion of planned capital improvements.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sanitary Sewer cash balance increased \$11,195 to \$2,660,521, due primarily to an increase in reserve funds for future capital needs.
- The Solid Waste cash balance increased \$67,910 to \$945,864, due primarily to miscellaneous income. A rate adjustment was made in fiscal year 2010 with an additional rate increase scheduled for July 2011.
- The Landfill cash balance decreased \$314,708 to \$3,117,856, due primarily to a decrease in reserves for planned cell expansion, required closure/post closure funds, and for the refinancing of Revenue Bonds with General Obligation Bonds at a lower interest rate.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was done May 17, 2010. The amendment was needed to cover unplanned disbursements, including disbursements associated with projects carried over from the prior fiscal year and for the refinancing of debt and new capital improvements.

The City's receipts were \$562,041 less than budgeted receipts, a variance of 2.9%. The most significant variance resulted from over estimating miscellaneous income.

The disbursements were \$4,012,211 less than budgeted because several capital improvements were not completed before year end.

DEBT ADMINISTRATION

At year-end the City had \$11,227,664 of debt outstanding. This is an increase of \$191,990 from the prior year.

Debt administration is quite conservative, with almost 90% of all City debt repaid within the next 10 years. This rapid repayment, when combined with the use of TIF and Local Option Sales Tax Revenue, has allowed the City to maintain our 1A rating. This rating is good and reflects well on our community.

The City continues to operate well under State debt capacity limitations. The State limits the amount of General Obligation Debt outstanding to 5% of the assessed value of all taxable property in the community. Thus, our debt capacity is \$30,953,258. With outstanding General Obligation Debt applicable to this limit of \$9,416,245, we are utilizing 30% of this limit. More detailed information on debt administration is provided in Note 3 of the financial statements.

ECONOMIC FACTORS

Spencer continued to have stable construction growth during this fiscal year. Building permits in calendar year 2009 valued a total of \$12,650,343. This amount shows an decrease over the prior year, going against the trend throughout the country. There were 4 new commercial units constructed, as well as 13 new dwellings units. While individual residential properties may have declined slightly, the overall residential values stayed stable.

The community remains proactive in seeking opportunities to grow and expand. A joint project between Spencer Municipal Utilities and the City to construct a new spec building within the Green Industrial Center was completed. This project shows the community's commitment to move forward, even in tough economic times. The City also completed several major community projects that will move Spencer into a good position for growth in the future.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the office of the City Clerk at 712-580-7200.

BASIC FINANCIAL STATEMENTS

CITY OF SPENCER, IOWA
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Disbursements	Program Receipts		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
Public Safety	\$ 2,285,294	\$ 130,920	\$ 155,456	\$ 12,425
Public Works	1,420,977	54,685	1,000,355	-
Culture and Recreation	1,425,791	155,405	41,825	-
Community and Economic Development	2,289,495	193,424	-	-
General Government	1,478,420	170,217	19,303	11,788
Debt Service	2,584,260	-	-	-
Capital Projects	5,828,337	322,943	-	2,069,340
Total Governmental Activities	<u>17,312,574</u>	<u>1,027,594</u>	<u>1,216,939</u>	<u>2,093,553</u>
Business-Type Activities:				
Sanitary Sewer	1,476,093	2,090,912	-	-
Solid Waste	1,580,701	1,568,458	-	-
Landfill	2,162,946	1,281,786	-	-
Airport	177,125	232,973	-	-
Golf Course	404,034	418,627	-	-
Total Business-Type Activities	<u>5,800,899</u>	<u>5,592,756</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 23,113,473</u>	<u>\$ 6,620,350</u>	<u>\$ 1,216,939</u>	<u>\$ 2,093,553</u>

General Receipts:

Property and Other City Tax Levied for:
 General Purposes
 Debt Service
 Tax Increment Financing
 In Lieu of Tax
 Local Option Sales Tax
 Hotel/Motel Tax
 Interest
 Sale of Assets
 Debt Proceeds
 Miscellaneous
 Transfers

Total General Receipts and Transfers
Change in Cash Basis Net Assets

Cash Basis Net Assets at Beginning of Year

Cash Basis Net Assets at End of Year

Cash Basis Net Assets

Restricted:
 Debt Service
 Other Purposes
Unrestricted
Total Cash Basis Net Assets

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business-Type Activities	Total
\$ (1,986,493)		\$ (1,986,493)
(365,937)		(365,937)
(1,228,561)		(1,228,561)
(2,096,071)		(2,096,071)
(1,277,112)		(1,277,112)
(2,584,260)		(2,584,260)
(3,436,054)		(3,436,054)
<u>(12,974,488)</u>		<u>(12,974,488)</u>
	\$ 614,819	614,819
	(12,243)	(12,243)
	(881,160)	(881,160)
	55,848	55,848
	14,593	14,593
	<u>(208,143)</u>	<u>(208,143)</u>
<u>(12,974,488)</u>	<u>(208,143)</u>	<u>(13,182,631)</u>
4,056,108	-	4,056,108
390,864	-	390,864
730,804	-	730,804
485,250	-	485,250
1,380,226	-	1,380,226
116,422	-	116,422
366,406	204,450	570,856
51,520	-	51,520
2,761,245	1,323,744	4,084,989
1,192,687	100,632	1,293,319
1,615,281	(1,615,281)	-
<u>13,146,813</u>	<u>13,545</u>	<u>13,160,358</u>
172,325	(194,598)	(22,273)
<u>12,289,460</u>	<u>7,220,563</u>	<u>19,510,023</u>
<u>12,461,785</u>	<u>7,025,965</u>	<u>19,487,750</u>
322,569	13,191	335,760
1,756,734	1,588,181	3,344,915
10,382,482	5,424,593	15,807,075
<u>\$ 12,461,785</u>	<u>\$ 7,025,965</u>	<u>\$ 19,487,750</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	General	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Receipts					
Property Tax	\$ 3,114,247	\$ 388,575	\$ -	\$ 916,243	\$ 4,419,065
Tax Increment Financing	-	-	-	730,804	730,804
Other City Tax	622,152	2,289	-	1,385,364	2,009,805
Licenses and Permits	158,040	-	-	-	158,040
Use of Money and Property	321,644	22,337	-	22,425	366,406
Intergovernmental	206,212	-	1,097,808	1,000,355	2,304,375
Charges for Services	300,035	-	-	4,025	304,060
Special Assessments	189,905	-	303,444	-	493,349
Miscellaneous	1,040,769	-	1,191,952	38,228	2,270,949
Total Receipts	<u>5,953,004</u>	<u>413,201</u>	<u>2,593,204</u>	<u>4,097,444</u>	<u>13,056,853</u>
Disbursements					
Operating:					
Public Safety	2,008,936	-	-	276,358	2,285,294
Public Works	1,353,206	-	-	67,771	1,420,977
Culture and Recreation	1,338,025	-	-	87,766	1,425,791
Community and Economic Development	1,389,117	-	-	900,378	2,289,495
General Government	763,888	-	-	714,532	1,478,420
Debt Service	-	1,064,260	-	-	1,064,260
Capital Projects	-	-	5,828,337	-	5,828,337
Total Disbursements	<u>6,853,172</u>	<u>1,064,260</u>	<u>5,828,337</u>	<u>2,046,805</u>	<u>15,792,574</u>
Excess (Deficiency) of Receipts over Disbursements	<u>(900,168)</u>	<u>(651,059)</u>	<u>(3,235,133)</u>	<u>2,050,639</u>	<u>(2,735,721)</u>
Other Financing Sources (Uses)					
Debt Proceeds	433,430	1,455,000	872,815	-	2,761,245
Sale of Assets	51,520	-	-	-	51,520
Payments on Refunding Debt	-	(1,520,000)	-	-	(1,520,000)
Operating Transfers In	2,013,354	1,890,498	2,960,115	271,804	7,135,771
Operating Transfers Out	(1,123,411)	(1,200,075)	(772,934)	(2,424,070)	(5,520,490)
Total Other Financing Sources (Uses)	<u>1,374,893</u>	<u>625,423</u>	<u>3,059,996</u>	<u>(2,152,266)</u>	<u>2,908,046</u>
Net Change in Cash Balances	<u>474,725</u>	<u>(25,636)</u>	<u>(175,137)</u>	<u>(101,627)</u>	<u>172,325</u>
Cash Balances at Beginning of Year	<u>9,907,757</u>	<u>348,205</u>	<u>434,458</u>	<u>1,599,040</u>	<u>12,289,460</u>
Cash Balances at End of Year	<u>10,382,482</u>	<u>322,569</u>	<u>259,321</u>	<u>1,497,413</u>	<u>12,461,785</u>
Cash Basis Fund Balance					
Reserved for:					
Debt Service	-	322,569	-	-	322,569
Perpetual Care	-	-	-	317,932	317,932
Other	-	-	-	30,750	30,750
Unreserved, Reported in:					
General Fund	10,382,482	-	-	-	10,382,482
Special Revenue Funds	-	-	-	1,087,425	1,087,425
Capital Projects Fund	-	-	259,321	-	259,321
Permanent Fund	-	-	-	61,306	61,306
Total Cash Basis Fund Balance	<u>\$ 10,382,482</u>	<u>\$ 322,569</u>	<u>\$ 259,321</u>	<u>\$ 1,497,413</u>	<u>\$ 12,461,785</u>

CITY OF SPENCER, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Business Type Activities				Total
	Sanitary Sewer	Solid Waste	Landfill	Nonmajor Proprietary Funds	
Operating Receipts:					
Charges for Services	\$ 2,090,912	\$ 1,568,458	\$ 1,281,786	\$ 651,600	\$ 5,592,756
Miscellaneous	30,541	44,310	8,284	17,497	100,632
Total Operating Receipts	<u>2,121,453</u>	<u>1,612,768</u>	<u>1,290,070</u>	<u>669,097</u>	<u>5,693,388</u>
Operating Disbursements:					
Salaries	178,278	582,800	192,236	197,355	1,150,669
Payroll Taxes and Employee Benefits	44,499	256,340	67,773	57,567	426,179
Repairs and Maintenance	33,522	69,943	27,503	102,385	233,353
Utilities	1,645	14,264	4,224	-	20,133
Contract Services	773,660	11,168	63,932	82,766	931,526
Insurance Premiums	33,231	19,058	16,323	-	68,612
Gas and Oil	4,246	87,756	70,312	-	162,314
Supplies	9,073	37,696	14,272	105,504	166,545
Staff Development	-	275	-	5,899	6,174
Capital Outlay	311,957	59,854	117,544	29,683	519,038
Landfill Charges	-	420,187	-	-	420,187
Collection Fee	18,960	21,360	-	-	40,320
Total Operating Disbursements	<u>1,409,071</u>	<u>1,580,701</u>	<u>574,119</u>	<u>581,159</u>	<u>4,145,050</u>
Excess of Operating Receipts over Operating Disbursements	<u>712,382</u>	<u>32,067</u>	<u>715,951</u>	<u>87,938</u>	<u>1,548,338</u>
Non-Operating Receipts (Disbursements):					
Interest Income	69,514	25,885	103,809	5,242	204,450
Interest Expense	(5,014)	-	(68,152)	-	(73,166)
Principal	(58,000)	-	(1,520,000)	-	(1,578,000)
Bond Fees	(4,008)	-	(675)	-	(4,683)
Total Non-Operating Receipts (Disbursements)	<u>2,492</u>	<u>25,885</u>	<u>(1,485,018)</u>	<u>5,242</u>	<u>(1,451,399)</u>
Excess (Deficiency) of Receipts over Disbursements	<u>714,874</u>	<u>57,952</u>	<u>(769,067)</u>	<u>93,180</u>	<u>96,939</u>
Other Financing Sources (Uses)					
Debt Proceeds	1,323,744	-	-	-	1,323,744
Operating Transfers In	-	19,958	1,210,033	-	1,229,991
Operating Transfers Out	(2,027,423)	(10,000)	(755,674)	(52,175)	(2,845,272)
Total Other Financing Sources (Uses)	<u>(703,679)</u>	<u>9,958</u>	<u>454,359</u>	<u>(52,175)</u>	<u>(291,537)</u>
Net Change in Cash Balances	<u>11,195</u>	<u>67,910</u>	<u>(314,708)</u>	<u>41,005</u>	<u>(194,598)</u>
Cash Balances at Beginning of Year	<u>2,649,326</u>	<u>877,954</u>	<u>3,432,564</u>	<u>260,719</u>	<u>7,220,563</u>
Cash Balances at End of Year	<u>2,660,521</u>	<u>945,864</u>	<u>3,117,856</u>	<u>301,724</u>	<u>7,025,965</u>
Cash Basis Fund Balance					
Reserved for:					
Closure and/or Postclosure Care	-	15,035	1,355,502	-	1,370,537
Debt Service	-	-	13,191	-	13,191
Landfill Recycling and Planning	-	-	217,644	-	217,644
Unreserved	2,660,521	930,829	1,531,519	301,724	5,424,593
Total Cash Basis Fund Balance	<u>\$ 2,660,521</u>	<u>\$ 945,864</u>	<u>\$ 3,117,856</u>	<u>\$ 301,724</u>	<u>\$ 7,025,965</u>

See Accompanying Notes to Financial Statements

CITY OF SPENCER, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENT AND CHANGES IN CASH BALANCES
AGENCY FUND
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

Additions:

Use of Money and Property	\$ 22,170
Charges for Services	7,958
Miscellaneous	<u>23,227</u>
Total Additions	<u>53,355</u>

Deductions:

General Government	<u>190,736</u>
Total Deductions	<u>190,736</u>

Net Change in Cash Balances (137,381)

Cash Balances at Beginning of Year 757,013

Cash Balances at End of Year \$ 619,632

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The City of Spencer, Iowa, is a political subdivision of the State of Iowa, located in Clay County. It was first incorporated in 1880, and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, culture and economic development, public improvements, and general government services.

Reporting Entity -- For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Based on the application of the criteria set forth by the Governmental Accounting Standards Board, management has determined that the Spencer Municipal Hospital (SMH) is a component unit of the City. Financial information for SMH has not been reported in the City's financial statements. Accordingly, these financial statements present the activities of the primary government only and are not a complete presentation in accordance with generally accepted accounting principles. Spencer Municipal Hospital's financial statements can be obtained at their administrative offices or at City Hall.

The Spencer Municipal Utilities (SMU) provides electric and water utility services to the citizens of Spencer. SMU is not considered a component unit of the City because it does not meet the criteria stated above. Currently, SMU made voluntary payments of \$485,250 in lieu of property tax payments to the City.

Jointly Governed Organizations -- The City also participates in several jointly governed organizations for which the City is not financially accountable or that the nature and significance of the relationship with the City are such that exclusion does not cause the City's financial statements to be misleading or incomplete.

- B. Basis of Presentation

Government-wide Financial Statements -- The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. The City's net assets are reported in two categories:

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted net assets results when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

The City does not allocate indirect costs.

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

- C. Fund Accounting -- Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. The City reports the following major governmental and proprietary funds:

General Fund -- The General Fund is used to account for all financial transactions not properly included in other funds. It serves as the general operating fund of the City and derives its major revenues from property taxes, licenses and permits, state allocation, and charges for services. The expenditures of the General Fund are categorized as follows:

Public Safety -- Activities related to public safety include police protection, fire protection, and the communication center.

Public Works -- Activities related to public works include roadway construction and maintenance, transportation services, street lighting, and airport operations.

Culture and Recreation -- Activities related to culture and recreation include parks and recreation, aquatic center, library, and golf course operations.

Community and Economic Development -- Activities related to community and economic development include community beautification, housing and urban renewal, planning and zoning, and economic development operations.

General Government -- Activities related to general government include City Council activities, legal services, and executive and financial administration and support services.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt Service Fund -- The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. General property taxes or tax increment financing and fund transfers are to provide the revenues for the debt service payments.

Capital Projects Fund -- The Capital Projects Fund is used to account for the accumulation of resources for, and the payment of, expenditures related to various capital projects.

Enterprise Funds -- The Enterprise Funds are used to finance and account for the acquisition, operation, and maintenance of governmental facilities and services that are supported by user charges. The following are the Enterprise Funds:

Sanitary Sewer -- To account for the operation of a municipally owned waste water treatment plant and collection system. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, waste water treatment, handling and supporting services, capital outlay, and debt service.

Solid Waste -- To account for the operation of municipally owned garbage collection and disposal service.

Landfill -- To account for the operation of municipally owned landfill.

D. Measurement Focus and Basis of Accounting

The City of Spencer maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City of Spencer funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Note 2 – CASH AND POOLED INVESTMENTS

The City deposits in banks at June 30, 2010, were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The reconciliation of cash and cash equivalents and temporary cash and pooled investments for the City at June 30, 2010 is as follows:

Cash and Cash Equivalents	\$ 15,779,295
Restricted Cash and Cash Equivalents	<u>3,708,456</u>
	<u>\$ 19,487,751</u>

Interest rate risk- The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 3 – LONG-TERM DEBT

General Obligation Bonds/Notes

The City's computed legal debt limit as of June 30, 2010 is \$30,953,258 of which \$9,416,245 is committed for outstanding general obligation debt.

The following is a summary of bond transactions of the City for the year ended June 30, 2010:

	<u>General Obligation</u>
Bonds/Notes Payable – July 1, 2009	\$ 8,945,000
Add Bonds/Notes Issued	2,761,245
Less Bonds/Notes Retired	<u>(2,290,000)</u>
Bonds/Notes Payable – June 30, 2010	<u>\$ 9,416,245</u>

General obligation bonds/notes are direct obligations and pledge the full faith and credit of the government. General obligation bonds/notes currently outstanding are as follows:

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Amount Originally Issued	Outstanding 06/30/10
Bond E	5/2001	4.68%	2012	\$1,170,000	\$ 275,000
Bond G	11/2003	3.98%	2018	\$1,900,000	\$1,190,000
Bond C Refunding	10/2004	3.28%	2012	\$1,520,000	\$ 70,000
Improvement Bond	5/2005	4.02%	2018	\$1,485,000	\$ 990,000
Corporate Purpose	10/2006	4.12%	2017	\$2,140,000	\$1,620,000
WTP Land Bond	1/2007	4.41%	2026	\$ 655,000	\$ 590,000
Street Imp. Bond	6/2007	4.07%	2017	\$ 515,000	\$ 305,000
LF Post Closure	12/2008	3.63%	2018	\$1,350,000	\$1,220,000
Green Indust-SMU	10/2009	2.75%	2010	\$1,000,000	\$ 630,000
Green Indust- Spec	7/2009	3.00%	2019	\$ 383,430	\$ 383,430
LF Refunding GO	4/2010	2.00%	2019	\$1,455,000	\$1,455,000
Hy-Vee TIF Rev	5/2007	6.00%	2018	\$ 470,000	\$ 395,000
2009 LF Closure	2/2009	3.00%	2028	\$ 885,000	\$ 292,815

The annual requirements to amortize the general obligations bonds/notes outstanding as of June 30, 2010, are as follows:

	<u>General Obligation</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,823,000	\$ 326,445
2012	1,164,000	268,725
2013	890,000	227,906
2014	926,000	196,903
2015	958,000	175,241
2016 -2020	3,385,245	348,499
2021 -2025	220,000	41,234
2026	<u>50,000</u>	<u>2,205</u>
	<u>\$ 9,416,245</u>	<u>\$ 1,587,158</u>

The Debt Service Fund has \$322,569 available to service the General Obligation Bonds.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 3 – LONG-TERM DEBT (Continued)

Revenue Bonds

The following is a summary of revenue bond transactions of the City for the year ended June 30, 2010:

	<u>Revenue Bonds</u>
Revenue Bonds Payable – July 1, 2009	\$ 1,765,675
Add Bonds Issued	1,323,744
Less Bonds Retired	<u>(1,578,000)</u>
Revenue Bonds Payable – June 30, 2010	<u>\$ 1,511,419</u>

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Amount Originally Issued	Outstanding 06/30/10
SRF 2008 WTP Improv	6/2009	3.25 %	2029	\$2,000,000	\$1,128,988
SRF 2008 CSI Study	6/2008	0.00 %	Open	\$1,000,000	\$ 382,431

The annual requirements to amortize the revenue bonds outstanding as of June 30, 2010, are as follows:

	<u>Revenue Bonds</u>	
	Principal	Interest
2011	\$ 348,930	\$ 36,692
2012	155,501	34,742
2013	64,000	32,727
2014	66,000	30,647
2015	68,000	28,502
2016-2020	377,000	107,703
2021-2025	<u>431,988</u>	<u>42,443</u>
	<u>\$ 1,511,419</u>	<u>\$ 313,456</u>

Other Long-Term Debt

The following is a summary of other long-term debt transactions of the City for the year ended June 30, 2010:

	<u>Other Long- Term Debt</u>
Other Long-Term Debt Payable – July 1, 2009	\$ 325,000
Add Other Long-Term Debt Issued	-
Less Other Long-Term Debt Retired	<u>(25,000)</u>
Other Long-Term Debt Payable – June 30, 2010	<u>\$ 300,000</u>

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 3 – LONG-TERM DEBT (Continued)

On June 30, 2010, the City had the following other long-term debt:

Issuance	Date Of Issuance	Interest Rate	Final Due Date	Amount Originally Issued	Outstanding 06/30/10
SMU- Shine Loan	11/2006	0.00 %	2021	\$375,000	\$300,000

The Spencer Municipal Utilities \$375,000 loan is retired through loan receivable payments from Shine Brothers.

The maturities and payment components of the other long-term debt as of June 30, 2010, are as follows:

Other Long-Term Debt		
	Principal	Interest
2011	\$ 25,000	-
2012	25,000	-
2013	25,000	-
2014	25,000	-
2015	25,000	-
2016-2020	125,000	-
2021-2022	50,000	-
	<u>\$ 300,000</u>	<u>\$ -</u>

Changes in Long-Term Liabilities

Long-Term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
Governmental Activities:					
General Obligation	\$ 8,945,000	\$ 2,761,245	\$ 2,290,000	\$ 9,416,245	\$ 1,823,000
Notes Payable	<u>325,000</u>	<u>-</u>	<u>25,000</u>	<u>300,000</u>	<u>25,000</u>
Governmental Activity Long-Term Liabilities	<u>\$ 9,270,000</u>	<u>\$ 2,761,245</u>	<u>\$ 2,315,000</u>	<u>\$ 9,716,245</u>	<u>\$ 1,848,000</u>
Business-Type Activities:					
Revenue Bonds	\$ <u>1,765,675</u>	\$ <u>1,323,744</u>	\$ <u>1,578,000</u>	\$ <u>1,511,419</u>	\$ <u>348,930</u>
Business-Type Activity Long-Term Liabilities	<u>\$ 1,765,675</u>	<u>\$ 1,323,744</u>	<u>\$ 1,578,000</u>	<u>\$ 1,511,419</u>	<u>\$ 348,930</u>

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 4 – RESTRICTED NET ASSETS

Cash is restricted for the following purposes:

	Governmental Activities	Business-Type Activities	Total
Debt Service	\$ 322,569	\$ 13,191	\$ 335,760
Perpetual Care	317,932	-	317,932
Other Permanent Funds	92,056	-	92,056
Closure and/or Postclosure Care	-	1,370,537	1,370,537
Landfill Recycling and Planning	-	217,644	217,644
Special Revenue Funds	1,087,425	-	1,087,425
Capital Projects	259,322	-	259,322
Total	\$ 2,079,304	\$1,601,372	\$ 3,680,676

Note 5 – AIRPORT LEASE AGREEMENTS

The City of Spencer and General Traffic Controls, Inc. entered into a facilities lease agreement under which General Traffic Controls, Inc. leases from the City certain space at the Spencer Municipal Airport for \$1,550 per month. The lease is effective beginning March 1, 2010. The lease is on a month to month basis for an indefinite term, however, either party may terminate the lease upon sixty days advanced written notice. During the year ended June 30, 2010, rent income totaled \$6,200.

The City of Spencer and Spencer Avionics, Inc. have entered into a facilities lease agreement under which Spencer Avionics, Inc. leases from the City certain space in the north hangar at the Spencer Municipal Airport. The lease is effective from July 1, 2008 through June 2048. During the year ended June 30, 2010, rent receipts totaled \$1,935.

On March 13, 2006, the City of Spencer and CAMM Air entered into a facilities lease agreement under which CAMM Air leases from the City certain space at the Spencer Municipal Airport for \$1,200 per year. The lease is effective for March 13, 2006 through June 2105. During the year ended June 30, 2010, rent receipts totaled \$1,200.

The City of Spencer and Maurer Manufacturing, Inc. have entered into a facilities lease agreement under which Maurer Manufacturing, Inc. leases from the City certain space in the east-facing hangar as well as ground floor space in the West Bay of the Main Maintenance Hangar at the Spencer Municipal Airport for \$3,440 per month. During the year ended June 30, 2010, rent income totaled \$36,480.

On January 14, 2008, the City of Spencer and Superior Lubrication Products, Inc. entered into a facilities lease agreement under which Superior Lubrication Products, Inc. leases from the City certain space at the Spencer Municipal Airport for \$1,213 per month. The lease is effective indefinitely, however either party may terminate the lease upon sixty days advanced written notice. During the year ended June 30, 2010, rent receipts totaled \$14,557.

The City of Spencer and Leading Edge Aviation, Inc. have entered into a facilities lease agreement under which Leading Edge Aviation, Inc. leases from the City certain space in the north hangar at the Spencer Municipal Airport for \$1,400 per month. The lease is effective beginning July 1, 2004. During the year ended June 30, 2010, rent receipts totaled \$73,844.

The minimum future rentals on the above operating leases for the next twelve months as of June 30, 2010, are \$94,372.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 6 – PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute.

The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were as follows:

	June 30, 2010	June 30, 2009	June 30, 2008
City's Contribution	\$ 192,436	\$ 176,474	\$ 161,798
Percentage Funded of Required Contribution	100.0%	100.0%	100.0%

The City contributes to the Municipal Fire and Police Retirement System of Iowa (the Plan), which is a cost-sharing, multiple-employer defined benefit pension plan administered by a Board of Trustees. The Plan provides retirement, disability, and death benefits which are established by state statute to plan members and beneficiaries. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to Municipal Fire and Police Retirement System of Iowa, 2836 104th Street, Urbandale, Iowa 50322.

During fiscal year 2010, plan members are required to contribute 9.4% of earned compensation and the City's contribution rate may not be less than 17.00% of earnable compensation. Contribution requirements are established by state statute. The City's contribution to the Plan for the years ended June 30, 2010, 2009, and 2008 were as follows:

	June 30, 2010	June 30, 2009	June 30, 2008
City's Contribution	\$ 205,649	\$ 211,059	\$ 251,398
Percentage Funded of Required Contribution	100.0%	100.0%	100.0%

Note 7- OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description- The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 86 active and 7 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Employee Benefit Systems (EBS). Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

**CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Note 7- OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Funding Policy- The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members is approximately \$495 for single coverage and \$1,230 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$765,615 and plan members eligible for benefits contributed \$167,251 to the plan.

Note 8 – RISK FINANCING

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 9 – INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$22,640,000 of industrial development revenue bonds in prior years under the provisions of Chapter 419 of the Code of Iowa. The balances outstanding at June 30, 2010, cannot be approximated since the various companies do not provide this information to the City. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

Note 10 – CONSTRUCTION COMMITMENTS

The City has entered into contracts totaling \$5,814,848 for various capital projects. As of June 30, 2010, disbursements totaled \$2,827,075. The remaining \$2,987,773 will be paid as work on the projects progresses.

Note 11 – LANDFILL CLOSURE/POST CLOSURE CARE COSTS

To comply with federal and state regulations, the City is required to complete a monitoring system plan and a closure/postclosure plan and to provide funding necessary to effect closure and post closure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and postclosure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collection and treating leachate (the liquid that drains out of waste) for thirty years.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 11 – LANDFILL CLOSURE/POST CLOSURE CARE COSTS (Continued)

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and postclosure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in postclosure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the postclosure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently and is required to be updated annually due to the potential for changes due to inflation or deflation, technology or applicable laws or regulations.

These costs for the City have been estimated to be \$796,000 for closure and \$1,290,000 for postclosure, for a total of \$2,086,000 as of June 30, 2010. In the current year \$300,399 has been spent on landfill closure costs. Currently the estimated remaining life of the landfill is 2 months with approximately 98 percent of the landfill's capacity used at June 30, 2010. A new cell was opened on August 31, 2010.

Chapter 455B.306(9)(b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and postclosure accounts to accumulate resources for the payment of closure and postclosure care costs. The City has begun to accumulate resources to fund these costs and, at June 30, 2010, assets of \$1,355,502 are restricted for these purposes.

Also, pursuant to Chapter 567-111.3(3) of the Iowa Administrative Code (IAC), since the estimated closure and post closure care costs are not fully funded, the City is required to demonstrate financial assurance for the unfunded costs. The City has adopted the dedicated fund mechanism and has an additional \$592,185 available from a State Revolving Fund loan in order to fully fund the requirements for closure and postclosure pursuant to IAC 567 113.14(3) and 113.14(4).

As of June 30, 2010, the City had a balance in the closure/postclosure dedicated fund in the amount of \$1,947,687.

Note 12 – DEFICIT FUND BALANCE

As of June 30, 2010 the Group Medical/Life Insurance Special Revenue Fund had a deficit fund balance of \$4,297. The deficit will be funded by future property taxes.

CITY OF SPENCER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 13 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General Fund	Nonmajor Governmental	\$ 1,727,182
	Enterprise: Sewer	251,172
	Nonmajor Enterprise	25,000
	Enterprise: Solid Waste	10,000
		<u>2,013,354</u>
Nonmajor Special Revenue	Enterprise: Sewer	370
	Enterprise: Landfill	1,664
	General Fund	269,770
		<u>271,804</u>
Debt Service	Nonmajor Governmental	696,888
	Enterprise: Sewer	52,520
	General Fund	24,146
	Enterprise: Landfill	344,010
	Capital Projects	772,934
		<u>1,890,498</u>
Capital Projects	Enterprise: Sewer	1,703,445
	General Fund	829,495
	Nonmajor Enterprise	27,175
	Enterprise: Landfill	400,000
		<u>2,960,115</u>
Enterprise: Solid Waste	Enterprise: Sewer	9,958
	Enterprise: Landfill	10,000
		<u>19,958</u>
Enterprise: Landfill	Enterprise: Sewer	9,958
	Debt Service	1,200,075
		<u>1,210,033</u>
		<u><u>\$ 8,365,762</u></u>

Transfers generally move resources from the fund statutorily required to collect the resources to fund the statutorily required to disburse the resources.

Note 14 - SUBSEQUENT EVENTS

In November 2010, the City entered into a \$575,000 GO Street Bonds, Series 2010B loan agreement.

In December 2010, the City entered into a \$7,500,000 Sewer Revenue Bonds loan agreement.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPENCER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS)
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts			
Property Tax	\$ 4,419,065	\$ -	\$ 4,419,065
Tax Increment Financing	730,804	-	730,804
Other City Tax	2,009,805	-	2,009,805
Licenses and Permits	158,040	-	158,040
Use of Money and Property	366,406	204,450	570,856
Intergovernmental	2,304,375	-	2,304,375
Charges for Services	304,060	5,592,756	5,896,816
Special Assessments	493,349	-	493,349
Miscellaneous	2,270,949	100,632	2,371,581
Total Receipts	<u>13,056,853</u>	<u>5,897,838</u>	<u>18,954,691</u>
Disbursements			
Public Safety	2,285,294	-	2,285,294
Public Works	1,420,977	-	1,420,977
Culture and Recreation	1,425,791	-	1,425,791
Community and Economic Development	2,289,495	-	2,289,495
General Government	1,478,420	-	1,478,420
Debt Service	2,584,260	-	2,584,260
Capital Projects	5,828,337	-	5,828,337
Business Type Activities	-	5,800,899	5,800,899
Total Disbursements	<u>17,312,574</u>	<u>5,800,899</u>	<u>23,113,473</u>
Excess (Deficiency) of Receipts Over Disbursements	(4,255,721)	96,939	(4,158,782)
Other Financing Sources (Uses)			
Proceeds of Debt	2,761,245	1,323,744	4,084,989
Proceeds from Sale of Fixed Assets	51,520	-	51,520
Operating Transfers From Other Funds	7,135,771	1,229,991	8,365,762
Operating Transfers to Other Funds	(5,520,490)	(2,845,272)	(8,365,762)
Total Other Financing Sources (Uses)	<u>4,428,046</u>	<u>(291,537)</u>	<u>4,136,509</u>
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	172,325	(194,598)	(22,273)
Balances at Beginning of Year	<u>12,289,460</u>	<u>7,220,563</u>	<u>19,510,023</u>
Balances at End of Year	<u>\$ 12,461,785</u>	<u>\$ 7,025,965</u>	<u>\$ 19,487,750</u>

Budget		Final to
Original	Final	Actual Variance
\$ 4,400,061	\$ 4,400,061	\$ 19,004
727,381	727,381	3,423
1,721,359	1,721,359	288,446
51,200	51,200	106,840
402,000	402,000	168,856
2,339,218	2,364,218	(59,843)
5,466,628	5,466,628	430,188
309,250	309,250	184,099
2,523,335	4,074,635	(1,703,054)
17,940,432	19,516,732	(562,041)
2,383,736	2,473,036	187,742
1,370,426	1,593,926	172,949
1,493,922	1,520,722	94,931
1,274,119	2,719,119	429,624
1,870,450	2,108,950	630,530
2,366,961	2,600,351	16,091
7,792,280	7,792,280	1,963,943
4,572,300	6,317,300	516,401
23,124,194	27,125,684	4,012,211
(5,183,762)	(7,608,952)	3,450,170
3,640,000	5,283,390	(1,198,401)
-	-	51,520
6,382,566	6,382,566	1,983,196
(6,382,566)	(6,382,566)	(1,983,196)
3,640,000	5,283,390	(1,146,881)
(1,543,762)	(2,325,562)	2,303,289
19,510,019	19,510,019	-
\$ 17,966,257	\$ 17,184,457	\$ 2,303,289

CITY OF SPENCER, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
JUNE 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund, and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$4,001,490. These budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

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CITY OF SPENCER, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Nonmajor Special Revenue Funds	Nonmajor Permanent Funds	Total Governmental Nonmajor Funds
Receipts			
Property Tax	\$ 916,243	\$ -	\$ 916,243
Tax Increment Financing	730,804	-	730,804
Other City Tax	1,385,364	-	1,385,364
Use of Money and Property	18,342	4,083	22,425
Intergovernmental	1,000,355	-	1,000,355
Charges for Services	-	4,025	4,025
Miscellaneous	37,380	848	38,228
Total Receipts	<u>4,088,488</u>	<u>8,956</u>	<u>4,097,444</u>
Disbursements			
Public Safety	276,358	-	276,358
Public Works	67,771	-	67,771
Culture and Recreation	87,541	225	87,766
Community and Economic Development	898,302	2,076	900,378
General Government	714,532	-	714,532
Total Disbursements	<u>2,044,504</u>	<u>2,301</u>	<u>2,046,805</u>
Excess of Receipts Over Disbursements	2,043,984	6,655	2,050,639
Other Financing Sources (Uses)			
Operating Transfers In	271,804	-	271,804
Operating Transfers Out	(2,424,070)	-	(2,424,070)
Total Other Financing Sources (Uses)	<u>(2,152,266)</u>	<u>-</u>	<u>(2,152,266)</u>
Net Change in Cash Balances	(108,282)	6,655	(101,627)
Cash Balances at Beginning of Year	<u>1,195,707</u>	<u>403,333</u>	<u>1,599,040</u>
Cash Balances at End of Year	<u><u>1,087,425</u></u>	<u><u>409,988</u></u>	<u><u>1,497,413</u></u>
Cash Basis Fund Balance			
Reserved for:			
Perpetual Care	-	317,932	317,932
Other	-	30,750	30,750
Unreserved	1,087,425	61,306	1,148,731
Total Cash Basis Fund Balance	<u><u>\$ 1,087,425</u></u>	<u><u>\$ 409,988</u></u>	<u><u>\$ 1,497,413</u></u>

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL NONMAJOR FUNDS - SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Road Use Tax	T.I.F.	LOST	SSMID	Police Retirement Systems	Civil Service Expenses
Receipts						
Property Tax	\$ -	\$ -	\$ -	\$ 72,626	\$ 175,388	\$ 10,039
Tax Increment Financing	-	730,804	-	-	-	-
Other City Tax	-	-	1,380,226	-	1,068	61
Use of Money and Property	-	1,324	8,105	-	6,520	37
Intergovernmental	1,000,355	-	-	-	-	-
Miscellaneous	-	-	-	-	-	4,341
Total Receipts	<u>1,000,355</u>	<u>732,128</u>	<u>1,388,331</u>	<u>72,626</u>	<u>182,976</u>	<u>14,478</u>
Disbursements						
Public Safety	-	-	-	-	162,647	5,500
Public Works	-	-	-	-	-	-
Culture and Recreation	-	-	-	-	-	-
Community and Economic Development	-	111,142	694,590	92,570	-	-
General Government	-	-	-	-	-	-
Total Disbursements	<u>-</u>	<u>111,142</u>	<u>694,590</u>	<u>92,570</u>	<u>162,647</u>	<u>5,500</u>
Excess (Deficiency) of Receipts Over (Under) Disbursements	1,000,355	620,986	693,741	(19,944)	20,329	8,978
Other Financing Sources (Uses)						
Operating Transfers In	-	-	-	-	-	-
Operating Transfers Out	(1,000,355)	(612,215)	(811,500)	-	-	-
Total Other Financing Sources (Uses)	<u>(1,000,355)</u>	<u>(612,215)</u>	<u>(811,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Cash Balances	-	8,771	(117,759)	(19,944)	20,329	8,978
Cash Balances at Beginning of Year	-	44,610	638,794	31,547	234,347	2,216
Cash Balances at End of Year	<u>\$ -</u>	<u>\$ 53,381</u>	<u>\$ 521,035</u>	<u>\$ 11,603</u>	<u>\$ 254,676</u>	<u>\$ 11,194</u>

Police Special Proceeds	Fire Pension Accumulation	Federal and State Retirement	Workers' Compensation Insurance	Trees Forever	Unemployment Insurance Claims	Group Medical/Life Insurance	Total
\$ -	\$ 46,146	\$ 71,286	\$ 13,867	\$ -	\$ 25,140	\$ 501,951	\$ 916,243
-	-	-	-	-	-	-	730,804
-	281	434	83	-	153	3,058	1,385,364
-	1,683	-	-	673	-	-	18,342
-	-	-	-	-	-	-	1,000,355
1,479	-	19,303	257	12,000	-	-	37,380
1,479	48,110	91,023	14,007	12,673	25,293	505,009	4,088,488
-	43,002	65,209	-	-	-	-	276,358
-	-	67,771	-	-	-	-	67,771
-	-	87,541	-	-	-	-	87,541
-	-	-	-	-	-	-	898,302
-	-	48,297	40,483	-	27,468	598,284	714,532
-	43,002	268,818	40,483	-	27,468	598,284	2,044,504
1,479	5,108	(177,795)	(26,476)	12,673	(2,175)	(93,275)	2,043,984
-	-	196,804	-	-	-	75,000	271,804
-	-	-	-	-	-	-	(2,424,070)
-	-	196,804	-	-	-	75,000	(2,152,266)
1,479	5,108	19,009	(26,476)	12,673	(2,175)	(18,275)	(108,282)
10,152	60,978	37,503	94,367	22,969	4,246	13,978	1,195,707
\$ 11,631	\$ 66,086	\$ 56,512	\$ 67,891	\$ 35,642	\$ 2,071	\$ (4,297)	\$ 1,087,425

See Accompanying Independent Auditor's Report

CITY OF SPENCER, IOWA
COMBINING STATEMENT OF RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL NONMAJOR FUNDS - PERMANENT FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Cemetery Perpetual Care Fund	Riverside Cemetery Memorial Trust	Columbarium Vault Fund	Northlawn Perpetual Care Fund	Griffin Trust Fund
Receipts					
Use of Money and Property	\$ -	\$ 245	\$ -	\$ 1,638	\$ 1,731
Charges for Services	3,625	-	-	400	-
Miscellaneous	-	648	200	-	-
Total Receipts	<u>3,625</u>	<u>893</u>	<u>200</u>	<u>2,038</u>	<u>1,731</u>
Disbursements					
Culture and Recreation	-	225	-	-	-
Community and Economic Development	-	-	-	-	2,076
Total Disbursements	<u>-</u>	<u>225</u>	<u>-</u>	<u>-</u>	<u>2,076</u>
Excess of Receipts Over Disbursements	3,625	668	200	2,038	(345)
Cash Balances at Beginning of Year	<u>249,729</u>	<u>9,176</u>	<u>2,800</u>	<u>59,540</u>	<u>64,429</u>
Cash Balances at End of Year	<u>253,354</u>	<u>9,844</u>	<u>3,000</u>	<u>61,578</u>	<u>64,084</u>
Cash Basis Fund Balance					
Reserved for:					
Perpetual Care	253,354	-	3,000	61,578	-
Other	-	2,550	-	-	20,000
Unreserved	-	7,294	-	-	44,084
Total Cash Basis Fund Balance	<u>\$ 253,354</u>	<u>\$ 9,844</u>	<u>\$ 3,000</u>	<u>\$ 61,578</u>	<u>\$ 64,084</u>

Leach Park Trust Fund	Total
\$ 469	\$ 4,083
-	4,025
-	848
469	8,956
-	225
-	2,076
-	2,301
469	6,655
17,659	403,333
18,128	409,988
-	317,932
8,200	30,750
9,928	61,306
\$ 18,128	\$ 409,988

CITY OF SPENCER, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Nonmajor Airport	Nonmajor Golf Course	Total Proprietary Nonmajor Funds
Operating Receipts:			
Charges for Services	\$ 232,973	\$ 418,627	\$ 651,600
Miscellaneous	1,138	16,359	17,497
Total Receipts	<u>234,111</u>	<u>434,986</u>	<u>669,097</u>
Operating Disbursements:			
Salaries	17,289	180,066	197,355
Payroll Taxes and Employee Benefits	4,299	53,268	57,567
Repairs and Maintenance	60,582	41,803	102,385
Contract Services	55,952	26,814	82,766
Supplies	13,226	92,278	105,504
Staff Development	5,165	734	5,899
Capital Outlay	20,612	9,071	29,683
Total Disbursements	<u>177,125</u>	<u>404,034</u>	<u>581,159</u>
Excess of Operating Receipts over Operating Disbursements	56,986	30,952	87,938
Non-Operating Receipts (Disbursements):			
Interest Income	4,377	865	5,242
Total Non-Operating Receipts (Disbursements)	<u>4,377</u>	<u>865</u>	<u>5,242</u>
Excess of Receipts over Disbursements	61,363	31,817	93,180
Other Financing Sources (Uses)			
Operating Transfers Out	(7,421)	(44,754)	(52,175)
Total Other Financing Sources (Uses)	<u>(7,421)</u>	<u>(44,754)</u>	<u>(52,175)</u>
Net Change in Cash Balances	53,942	(12,937)	41,005
Cash Balances at Beginning of Year	<u>206,808</u>	<u>53,911</u>	<u>260,719</u>
Cash Balances at End of Year	<u>\$ 260,750</u>	<u>\$ 40,974</u>	<u>\$ 301,724</u>

OTHER INFORMATION

TABLE I

CITY OF SPENCER, IOWA
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
GOVERNMENTAL FUNDS
LAST TEN YEARS

Fiscal Year	Public Safety/ Community Protection	Public Works/ Home and Community Environment	Culture and Recreation/ Human Development	Community and Economic Development	General Government/ Policy and Administration	Debt Service	Capital Projects	Total
2000-01	\$ 1,799,146	\$ 6,797,639	\$ 1,722,370	\$ -	\$ 882,719	\$ -	\$ -	\$ 11,201,874
2001-02	2,377,524	4,275,878	1,253,442	-	839,641	-	-	8,746,485
2002-03	1,820,298	1,286,453	1,501,855	907,477 ¹	1,055,886	817,401 ¹	2,846,127 ¹	10,235,497
2003-04	2,026,905	1,291,125	1,554,507	1,466,591 ¹	1,343,886	852,275 ¹	1,934,353 ¹	10,469,642
2004-05	1,978,717	1,416,025	1,617,789	1,218,917 ¹	1,124,274	3,871,429 ¹	4,336,342 ¹	15,563,493
2005-06	2,117,469	1,433,825	1,692,228	924,952 ¹	1,303,707	1,406,556 ¹	5,047,006 ¹	13,925,743
2006-07	2,167,277	1,474,470	1,849,139	1,496,613 ¹	1,354,535	4,904,583 ¹	1,806,523 ¹	15,053,140
2007-08	2,175,503	1,523,922	1,656,305	1,578,325 ¹	1,409,325	1,413,780 ¹	1,630,181 ¹	11,387,341
2008-09	2,461,524	1,459,165	1,369,796	2,776,842 ¹	1,465,448	1,485,111 ¹	1,820,672 ¹	12,838,558
2009-10	\$ 2,285,294	\$ 1,420,977	\$ 1,425,791	\$ 2,289,495 ¹	\$ 1,478,420	\$ 1,064,260 ¹	\$ 5,828,337 ¹	\$ 15,792,574

¹ New columns are due to a change in the chart of accounts. Information is not available for previous years.

NOTE: For the fiscal years 2000-2001 through 2006-2007, amounts are reported on the modified-accrual basis of accounting. For the fiscal years 2007-2008 through 2009-2010, amounts are reported on the cash basis of accounting.

TABLE II

**CITY OF SPENCER, IOWA
GENERAL GOVERNMENTAL REVENUES BY SOURCE
GOVERNMENTAL FUNDS
LAST TEN YEARS**

Fiscal Year	Taxes	Inter-Governmental	Charges for Services	Miscellaneous	Total
2000-01	\$ 3,311,031	\$ 3,269,724	\$ 613,802	\$ 1,168,907	\$ 8,363,464
2001-02	3,626,340	3,284,360	715,605	1,304,644	8,930,949
2002-03	5,377,766	2,186,001	660,553	1,222,856	9,447,176
2003-04	5,773,995	2,149,987	689,447	1,698,517	10,311,946
2004-05	5,945,570	1,995,646	709,362	2,122,712	10,773,290
2005-06	5,799,104	2,452,620	820,133	2,121,214	11,193,071
2006-07	7,200,906	1,835,359	853,406	1,290,729	11,180,400
2007-08	7,333,936	1,646,776	882,840	1,455,837	11,319,389
2008-09	7,590,648	1,457,983	311,873	2,628,386	11,988,890
2009-10	\$ 7,653,023	\$ 2,304,375	\$ 304,060	\$ 2,795,395	\$ 13,056,853

NOTE: For the fiscal years 2000-2001 through 2006-2007, amounts are reported on the modified-accrual basis of accounting.
For the fiscal years 2007-2008 through 2009-2010, amounts are reported on the cash basis of accounting.

TABLE III

**CITY OF SPENCER, IOWA
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

Fiscal Year	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Collections as Percent of Current Levy
2000-01	\$ 3,215,447	\$ 3,225,149	100.30%	\$ 28,708	\$ 3,253,857	101.19%
2001-02	3,400,880	3,301,854	97.09%	28,778	3,330,632	97.93%
2002-03	3,485,163	3,363,960	96.52%	29,468	3,393,428	97.37%
2003-04	3,568,016	3,575,870	100.22%	26,661	3,602,531	100.97%
2004-05	3,598,639	3,571,797	99.25%	29,716	3,601,513	100.08%
2005-06	3,721,216	3,706,983	99.62%	28,872	3,735,855	100.39%
2006-07	3,972,892	3,923,209	98.75%	39,184	3,962,393	99.74%
2007-08	4,168,217	4,160,882	99.82%	33,896	4,194,778	100.64%
2008-09	4,248,051	4,219,396	99.33%	50,162	4,269,558	100.51%
2009-10	\$ 4,428,015	\$ 4,378,336	98.88%	\$ 68,636	\$ 4,446,972	100.43%

TABLE IV

**CITY OF SPENCER, IOWA
TAXABLE AND ASSESSED VALUE OF TAXABLE PROPERTY
LAST TEN YEARS**

Payable Year	Real Property		Utilities		Total	
	Taxable Value	Assessed Value	Taxable Value	Assessed Value	Taxable Value	Assessed Value
2000-01	\$281,720,411	\$385,875,753	\$ 2,677,192	\$ 6,437,227	\$ 284,397,603	\$ 392,312,980
2001-02	307,073,876	418,397,846	2,585,629	2,671,192	309,659,505	421,069,038
2002-03	309,383,244	441,480,443	2,483,465	2,585,629	311,866,709	444,066,072
2003-04	316,918,800	477,395,455	2,426,076	2,483,465	319,344,876	479,878,920
2004-05	317,886,216	491,790,397	2,590,188	2,426,076	320,476,404	494,216,473
2005-06	320,172,089	461,972,302	2,544,562	2,565,631	322,716,651	464,537,933
2006-07	333,287,512	557,257,067	2,843,717	2,619,711	336,131,229	559,876,778
2007-08	349,624,211	561,803,499	2,260,676	2,930,865	351,884,887	564,734,364
2008-09	354,156,680	598,779,919	2,434,206	2,831,174	356,590,886	601,611,093
2009-10	\$369,955,950	\$614,883,975	\$ 2,423,771	\$ 4,181,187	\$ 372,379,721	\$ 619,065,162

Fiscal Year	Ratio of Total Taxable Value To Total Assessed Value
2000-01	72.5
2001-02	73.5
2002-03	70.2
2003-04	66.5
2004-05	64.8
2005-06	69.5
2006-07	60.0
2007-08	62.3
2008-09	59.3
2009-10	60.2

Note:

Taxable Value does not include the Tax Increment Levy.

TABLE V

**CITY OF SPENCER, IOWA
PROPERTY TAX RATES AND DEBT
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN YEARS
PER \$1,000 ASSESSED VALUATION**

Fiscal Year	City	School District	County Consolidated	Vocational School	Total
2000-01	11.16447	11.63238	5.05126	0.68552	28.53363
2001-02	10.80566	11.36772	5.05015	0.68550	27.90903
2002-03	11.03983	12.42898	4.77727	0.77150	29.01758
2003-04	11.02005	12.43699	5.32886	0.73807	29.52397
2004-05	11.09976	13.40352	5.73764	0.71942	30.96034
2005-06	11.37501	14.30408	6.32206	0.77966	32.78081
2006-07	11.65737	13.96943	6.22273	0.83196	32.68149
2007-08	11.65137	13.96983	6.12751	0.73979	32.49200
2008-09	11.72583	14.59188	6.46980	0.75850	33.54601
2009-10	11.71943	14.59187	6.42130	0.77796	33.51056

Name of Governmental Unit	Net Bonded Debt Outstanding	Percentage Applicable to This Governmental Unit
City of Spencer, Iowa	\$ 9,093,676	100%
Clay County	-	N/A
Spencer Community School District	-	N/A
	<u>\$ 9,093,676</u>	

CITY OF SPENCER, IOWA
PRINCIPAL TAXPAYERS
JUNE 30, 2010

Taxpayer	Type of Business	Assessed Valuation	Percentage of Total Assessed Valuation
Menard Inc.	Retail	\$ 9,937,340	1.61%
Sequoia Investments I, LLC	Mall	8,190,310	1.32
Wal-Mart	Retail	7,325,240	1.18
St Luke Lutheran Home, Inc.	Assisted Living	6,493,930	1.05
Shine Brothers Corporation	Manufacturing	5,035,100	0.81
Hy-Vee, Inc.	Retail	4,595,490	0.74
Jacobsen Homes Corporation	Rental Property	4,112,620	0.66
St. Luke Lutheran Home - Remainderman	Assisted Living	4,109,250	0.66
Lake Mills Investors, Ltd.	Doctor's Office	3,645,860	0.59
S&M Real Estate Company, LLC	Retail	3,335,690	0.54
		<u>\$ 56,780,830</u>	<u>9.17%</u>

Source:

Clay County Assessor

TABLE VII

CITY OF SPENCER, IOWA
COMPUTATION OF LEGAL DEBT MARGIN
JUNE 30, 2010

Total Assessed Value		<u>\$ 619,065,162</u>
Debt Limit (5% of Total Assessed Value)		30,953,258
Amount of Debt Applicable to Debt Limit	9,416,245	
Less Assets in Debt Service Fund Available for Payment of Principal	<u>322,569</u>	
Total Debt Applicable to Debt Limit		<u>9,093,676</u>
LEGAL DEBT MARGIN		<u>\$ 21,859,582</u>

TABLE VIII

**CITY OF SPENCER, IOWA
RATIO OF NET GENERAL BONDED DEBT
TO ASSESSED VALUE AND NET BONDED DEBT PER CAPITA
LAST TEN YEARS**

Fiscal Year	Population	Assessed Value	Gross Bonded Debt	Less Debt Service Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt Per Capita
2000-01	11,317	\$ 392,312,980	\$ 4,350,000	\$ 225,112	\$ 4,124,888	1.05	\$ 364
2001-02	11,317	421,069,038	6,275,000	311,427	5,963,573	1.42	527
2002-03	11,317	444,066,072	9,385,000	294,397	9,090,603	2.05	803
2003-04	11,317	479,878,920	8,330,000	614,421	7,715,579	1.61	682
2004-05	11,317	494,216,473	9,210,000	587,063	8,622,937	1.74	762
2005-06	11,317	464,537,933	8,220,000	843,866	7,376,134	1.59	652
2006-07	11,317	559,876,778	8,535,000	598,201	7,936,799	1.42	701
2007-08	11,317	564,734,364	7,990,000	710,378	7,279,622	1.29	643
2008-09	11,317	601,611,093	8,945,000	348,205	8,596,795	1.43	760
2009-10	11,317	\$ 619,065,162	\$ 9,416,245	\$ 322,569	\$ 9,093,676	1.47	\$ 804

CITY OF SPENCER, IOWA
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR
GENERAL BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN YEARS

Fiscal Year	Principal	Interest	Total Debt Services	Total General Expenditures	Ratio of Debt Service to General Expenditures
2000-01	\$ 295,000	\$ 164,393	\$ 459,393	\$ 11,201,874 ^{1,3}	4.1
2001-02	300,000	207,513	507,513	8,759,736 ^{1,3}	5.8
2002-03	410,000	292,796	702,796	7,386,427 ^{2,3}	9.5
2003-04	435,000	321,727	756,727	8,532,484 ^{2,3}	8.9
2004-05	410,000	289,177	699,177	11,224,858 ^{2,3}	6.2
2005-06	900,000	341,029	1,241,029	8,876,297 ^{2,3}	14.0
2006-07	895,000	390,316	1,285,316	13,243,664 ^{2,3}	9.7
2007-08	1,015,000	420,888	1,435,888	9,753,940 ^{2,4}	14.7
2008-09	1,145,000	347,330	1,492,330	11,015,597 ^{2,4}	13.5
2009-10	\$ 2,290,000	\$ 338,067	\$ 2,628,067	\$ 9,961,936 ^{2,4}	26.4

¹ Includes General, Special Revenue, Debt Service, Capital Projects, and Expendable Trust Funds

² Includes General, Special Revenue and Debt Service Funds.

³ Modified-accrual basis of accounting

⁴ Cash basis of accounting

**CITY OF SPENCER, IOWA
PROPERTY VALUE, CONSTRUCTION, AND BANK DEPOSITS
LAST TEN YEARS**

Fiscal Year	Commercial Construction ¹		Residential Construction ¹		Bank Deposits ²	Assessed Property Value ³
	Units	Value	Units	Value		
2000-01	49	\$ 4,398,229	139	\$ 6,275,140	\$ 336,326,000	\$ 392,312,980
2001-02	29	3,287,602	190	4,994,002	332,744,000	421,069,038
2002-03	29	27,572,359	193	5,330,054	344,265,000	444,066,072
2003-04	38	4,786,168	168	6,172,450	352,891,000	479,878,920
2004-05	11	1,268,456	39	5,628,400	390,521,000	494,216,473
2005-06	11	5,042,500	22	4,063,350	419,848,000	464,537,933
2006-07	11	5,240,000	24	3,659,000	446,865,000	559,876,778
2007-08	10	3,795,000	14	2,596,000	480,373,000	564,734,364
2008-09	5	231,000	13	2,842,000	475,472,000	601,611,093
2009-10	4	\$ 94,200	13	\$ 2,645,000	\$ 501,443,000	\$ 619,065,162

Source:

¹ City Building Inspector

² FDIC

³ Clay County Auditor

TABLE XI

**CITY OF SPENCER, IOWA
MISCELLANEOUS STATISTICS
JUNE 30, 2010**

Date of Incorporation	1880
Form of Government	Mayor/Council
Total Number of Employees (all departments)	138
Area in Square Miles	10.98
City of Spencer, Iowa, Facilities and Services:	
Miles of Streets	102.4
Culture and Recreation:	
City Parks	14
Golf Courses	2
Swimming Pools	1
Fire Protection:	
Number of Stations	1
Number of Fire Personnel and Officers	32
Police Protection:	
Number of Stations	1
Number of Police Personnel and Officers	29
Number of Law Violations:	
Physical Arrests & Citations	1678
Sewerage System:	
Number of Treatment Plants	1
Daily Average Treatment in Gallons	2,000,000
Maximum Daily Capacity of Treatment Plant in Gallons	10,000,000
Water System	
Elevated Storage Capacity	1,500,000
Capacity of Water Plant	3,000,000
Daily Average Consumption in Gallons	1,700,000
Hospitals:	
Number of Hospitals	1
Number of Patient Beds	99
Number of Medical Personnel in County (M.D., D.O., D.C., D.D.S.)	60

**CITY OF SPENCER, IOWA
DEMOGRAPHIC STATISTICS
LAST TEN YEARS**

Fiscal Year	Population	School Enrollment	Unemployment Rate %
2000-01	11,317	2,191	2.2
2001-02	11,317	2,127	3.2
2002-03	11,317	2,097	3.6
2003-04	11,317	2,120	4.1
2004-05	11,317	2,057	4.2
2005-06	11,317	2,058	3.3
2006-07	11,317	2,058	3.1
2007-08	11,317	2,097	3.1
2008-09	11,317	1,987	6.2
2009-10	11,317	1,905	6.5

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CITY OF SPENCER, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Grantor/Program	CFDA Number	Program Expenditures
DIRECT:		
U.S. Department of Transportation/Federal Aviation Administration: Airport Improvement Program	20.106	\$ 129,539
Environmental Protection Agency: Congressionally Mandated Projects	66.202	<u>137,952</u>
Total Direct		267,491
INDIRECT:		
U.S. Department of Housing and Urban Development: Indirect through the Iowa Department of Economic Development: Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	163,847
U.S. Department of Transportation: Indirect through the Iowa Department of Transportation: ARRA - Highway Planning and Construction	20.205	143,893
Highway Planning and Construction	20.205	<u>11,782</u>
		155,675
Indirect through the DPS/Governor's Traffic Safety Bureau: Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	2,915
Safety Belt Performance Grant	20.609	<u>4,500</u>
Total Indirect U.S. Department of Transportation		163,090
Environmental Protection Agency Office of Water: Indirect through the Iowa Finance Authority: Capitalization Grants for Clean Water State Revolving Funds	66.458	397,000
U.S. Department of Education: Indirect through the Iowa Department of Transportation: ARRA - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	84.397	13,514
U.S. Department of Homeland Security: Indirect Through the Iowa Homeland Security and Emergency Management: Hazard Mitigation Grant	97.039	108,477
Indirect Through the Iowa Department of Public Defense: Disaster Grants - Public Assistance	97.036	<u>51,110</u>
Total Indirect		<u>897,038</u>
TOTAL		<u><u>\$ 1,164,529</u></u>

CITY OF SPENCER
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2010

Note 1 -- BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Spencer and is presented on the cash basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.



Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members of the City Council
The City of Spencer
Spencer, IA 51301

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Spencer, Iowa, (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated December 17, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-A-10 to be a material weakness

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses, and accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spencer and other parties to whom the City may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Spencer during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
December 17, 2010

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Honorable Mayor and Members of the City Council
The City of Spencer
Spencer, IA 51301

Compliance

We have audited the City of Spencer's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Spencer's major federal programs for the year ended June 30, 2010. The City of Spencer's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Spencer's management. Our responsibility is to express an opinion on the City of Spencer's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Spencer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Spencer's compliance with those requirements.

In our opinion, the City of Spencer complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended June 30, 2010.

Internal Control Over Financial Reporting

Management of the City of Spencer is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Spencer's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Spencer's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a
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712-262-1500 FAX 712-262-2920

deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and constituents of the City of Spencer and other parties to whom the City of Spencer may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

Williams + Company, P.C.
Certified Public Accountants

Spencer, Iowa
December 17, 2010

**CITY OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part I: Summary of the Independent Auditors' Results

- (a) An unqualified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance, which is material to the financial statements.
- (d) No significant deficiencies in internal control over major programs were disclosed by the audit of the financial statements.
- (e) An unqualified opinion was issued on compliance with requirements applicable to each major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510 (a).
- (g) Major programs were as follows:
 - Highway Planning and Construction:
 - CFDA Number 20.205- ARRA- Highway Planning and Construction
 - CFDA Number 20.205- Highway Planning and Construction
 - Other Major Programs:
 - CFDA Number 14.228- Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
 - CFDA Number 66.458- Capitalization Grants for Clean Water State Revolving Funds
- (h) The dollar threshold used to distinguish between Type A and Type B was \$300,000.
- (i) The City of Spencer did not qualify as a low-risk auditee.

Part II: Findings Related to the Financial Statements Reported

INSTANCES OF NON-COMPLIANCE: No matters were reported.

MATERIAL WEAKNESS:

II-A-10 Financial Reporting-- During the audit, we identified several errors in posting of revenues and expenditures. Therefore, we proposed several adjusting journal entries some of which were material.

Recommendation – The City should implement procedures to ensure that all adjusting journal entries have been recorded properly and that cash receipts are posted correctly.

Response – In the future we will verify that all the necessary adjusting journal entries have been made and that all cash receipts are postings are reviewed for accuracy.

Conclusion – Response accepted.

**CITY OF SPENCER
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010**

Part III: Findings and Questioned Costs for Federal Awards

INSTANCES OF NON-COMPLIANCE: No matters were reported.

SIGNIFICANT DEFICIENCIES: No matters were reported.

Part IV: Other Findings Related to Required Statutory Reporting

- IV-A-10 Certified Budget – Although the budget was amended on May 17, 2010, the amendment occurred after disbursements exceeded the original budget for the Community and Economic Development function.
- Recommendation – Although the budget was amended in accordance with Chapter 384.18 of the Code of Iowa, care should have been taken to ensure that the amendment is done prior to disbursements exceeding the original budget.
- Response – The City will make an effort to amend the budget before disbursements are exceeded, if applicable in the future.
- Conclusion – Response accepted.
- IV-B-10: Questionable Disbursements – No expenditures that did not meet the requirement of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
- IV-C-10: Travel Expense – No expenditures of the City were for travel expenses of spouses of the City officials or employees.
- IV-D-10: Business Transactions – No business transactions between the City and City officials or employees were found.
- IV-E-10: Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operation.
- IV-F-10: Council Minutes – No transactions were found that we believe should have been approved by the Board minutes but were not.
- IV-G-10: Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 128 and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-H-10: Revenue Notes – No instances of non-compliance with the revenue bond and note resolutions were noted.
- IV-I-10: Financial Assurance – As of June 30, 2010, the City has demonstrated financial assurance for closure and postclosure care by establishing a local government dedicated fund as provided in Chapter 567-113.14(6) of the Iowa Administrative Code.